

Message Text

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PAGE 01 BUDAPE 02339 081536Z
ACTION TRSE-00

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FM AMEMBASSY BUDAPEST
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UNCLAS BUDAPEST 2339

E.O. 11652: N/A
TAGS: EFIN, HU
SUBJECT: U.S.-HUNGARIAN DOUBLE TAXATION AGREEMENT

REF: BUDAPEST 2334

1. FOLLOWING IS TEXT OF JUNE 8 AKAR TO ROSENBLOOM
LETTER DESCRIBED REFTEL:

2. BEGIN TEXT: THANK YOU VERY MUCH FOR YOUR LETTER
OF APRIL 7, 1978 AND THE DRAFT ATTACHED THERETO.

3. YOUR PROPOSITIONS AND COMMENTS OUTLINED IN THE
LETTER HAVE GREATLY FACILITATED THE ADVANCE TO A NEAR
COMPLETION OF OUR AGREEMENT.

4. I FEEL THE MAJORITY OF THE PENDING QUESTIONS HAVE
BEEN SOLVED. THERE ARE ONLY A FEW POINTS WHICH SEEM
TO NEED SOME CLARIFICATION. THE REFERENCES MENTIONED
HEREAFTER REFER TO THE NUMBERS OF YOUR NEW DRAFT.

1) ACCORDING TO THE HUNGARIAN TERMINOLOGY, I
SUGGEST TO DELETE THE WORD "SOCIALIST" IN ARTICLE 2
SUBPARAGRAPH 2 B/VII.

2) MY INTERPRETATION OF THE SECOND SENTENCE OF
ARTICLE 20, PARAGRAPH 1 ("SUCH APPROPRIATE AMOUNT SHALL
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BUDAPE 02339 081536Z

BE BASED...") IS THAT THIS REFERS ONLY TO THE CASES
WHERE INCOME TAX PAID BY A HUNGARIAN COMPANY WITH
RESPECT TO ITS PROFITS CAN BE CREDITED IN THE UNITED
STATES.

3) ACCORDING TO THE EXPLANATION OF YOUR LETTER IN
POINT 14 "THE HUNGARIAN PEOPLE'S REPUBLIC SHOULD NOT

FOR EXAMPLE, BE REQUIRED TO EXEMPT DIVIDENDS PAID BY AN AUSTRIAN COMPANY TO A UNITED STATES CITIZEN WHO IS A RESIDENT OF HUNGARY MERELY BECAUSE THE UNITED STATES TAXES HIM ON THE BASIS OF CITIZENSHIP." MY INTERPRETATION IS THAT THIS REFERS ALSO TO CASES WHERE THE DIVIDENDS ARE PAID BY A HUNGARIAN COMPANY.

4) I WOULD LIKE TO MAINTAIN THE DRAFT OF ARTICLE 20, PARAGRAPH 2, SUBPARAGRAPH B) CONTAINED IN MY LETTER OF 30TH NOVEMBER 1977. NAMELY ACCORDING TO OUR TAXATION POLICY ALL DIVIDENDS DERIVED BY HUNGARIAN COMPANIES FROM ABROAD ARE SUBJECT TO HUNGARIAN TAXATION. CONSEQUENTLY, I THINK, THE DIVIDENDS DERIVED FROM THE UNITED STATES CANNOT BE EXEMPTED EITHER.

5) I WOULD LIKE TO PROPOSE TO REINSERT THE WORDS "OTHER OR" IN PARAGRAPH 1 OF ARTICLE 21. MY REQUEST IN POINT 15 OF MY LETTER REFERRED ONLY TO PARAGRAPH 4 (STATE ENTERPRISES). THE REASONS GIVEN THERE ARE IRRELEVANT TO PARAGRAPH 1.

6) OUR CONVENTION WILL BE CONCLUDED BETWEEN THE GOVERNMENTS OF THE TWO COUNTRIES. CONSEQUENTLY, I PROPOSE TO SUBSTITUTE THE WORDS "CONTRACTING STATES" FOR "CONTRACTING PARTIES" IN PARAGRAPH 1 OF ARTICLE 25 AND IN ARTICLE 26. THE TEXT WILL READ AS FOLLOWS:
UNCLASSIFIED

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PAGE 03 BUDAPE 02339 081536Z

"...IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF EACH CONTRACTING PARTY AND ..."

"...TERMINATED BY ONE OF THE CONTRACTING PARTIES. EITHER CONTRACTING PARTY MAY TERMINATE ...",
RESPECTIVELY. (NOTE: SEE PARA 9 BELOW.)

7) AS, FOR THE TIME BEING, WE DO NOT KNOW WHO WILL BE THE AUTHORIZED PERSONS WHO SIGN THE CONVENTION, I PROPOSE TO DELETE IN THE TITLE OF THE DRAFT EXCHANGE OF LETTERS FOLLOWING:

"BETWEEN THE HUNGARIAN MINISTER OF FOREIGN AFFAIRS AND THE UNITED STATES AMBASSADOR TO HUNGARY."
SIMILARLY, AT THE END, THE WORDS "UNITED STATES AMBASSADOR" COULD BE CANCELLED TOO.

AS A DRAFT ANSWER OF LETTER TO BE WRITTEN BY THE HUNGARIAN SIDE, I SUGGEST THE FOLLOWING TEXT:

QUOTE DRAFT ANSWER OF LETTER

DEAR MR. MINISTER:

I HAVE THE HONOR TO REFER TO YOUR LETTER OF TODAY'S DATE CONCERNING THE INCOME TAX CONVENTION SIGNED TODAY

READING AS FOLLOWS: ...

I WISH TO INFORM YOU THAT I AGREE WITH THE CONTENTS
OF YOUR LETTER.

PLEASE ACCEPT, MR. MINISTER, ASSURANCE OF MY
HIGHEST CONSIDERATION.

SINCERELY YOUR END QUOTE

(NOTE: SEE PARA 10 BELOW)

5. I HOPE, DEAR MR. ROSENBLOOM, THAT YOU CAN AGREE WITH
THE CONTENTS OF MY LETTER. IF SO, OUR DRAFT SEEMS TO BE
READY FOR INITIALLING. IN ORDER TO ACCELERATE THE PROCESS,
I THINK IT WOULD BE ENOUGH TO INITIAL THE ENGLISH TEXT
ONLY. THE HUNGARIAN VERSION WILL BE PUT AT YOUR DISPOSAL
IN A SHORT TIME AFTER INITIALLING. THIS WAY WE COULD
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PAGE 04 BUDAPE 02339 081536Z

PREPARE BOTH THE HUNGARIAN AND THE ENGLISH VERSION OF
THE CONVENTION FOR SIGNING.

6. MAY I RECALL TO YOUR MEMORY, MR. ROSENBLOOM, OUR
DISCUSSIONS REGARDING THE PLACE AND DATE OF INITIALLING.
AS YOU HAVE MENTIONED, YOU WILL COME TO EUROPE IN JUNE
AND COULD SPEND SOME DAYS IN BUDAPEST, TO INITIAL OUR
DRAFTS. I WOULD APPRECIATE IF YOU WOULD REALIZE THIS
PLAN.

7. AWAITING YOUR ANSWER, I REMAIN, WITH BEST REGARDS,
/S/ LASZLO AKAR, GENERAL DIRECTOR. END TEXT

8. ORIGINAL LETTER BEING POUCHED TO ROSENBLOOM.

9. COMMENT: DR. AKAR'S ENGLISH IS MISLEADING IN
PARAGRAPH 4 SUBPARAGRAPH 6 ABOVE. INSTEAD OF "... I
PROPOSE TO SUBSTITUTE THE WORDS "CONTRACTING STATES" FOR
"CONTRACTING PARTIES"..." HE MEANT TO SUGGEST THAT
"STATE" OR "STATES" BE DELETED IN ARTICLES 25 AND 26
AND "PARTY" OR "PARTIES" BE USED INSTEAD.

10 SIMILARLY, PARAGRAPH 4 SUBPARAGRAPH 7 WOULD BE
CLEARER IF HE HAD WRITTEN "... I PROPOSE TO DELETE IN
THE TITLE OF THE DRAFT EXCHANGE OF LETTERS THE FOLLOWING:".
BOTH OF THESE POINTS HAVE BEEN DOUBLE-CHECKED WITH THE
MINISTRY OF FINANCE. END COMMENT.
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